



House of Representatives

File No. 893

General Assembly

January Session, 2015

(Reprint of File No. 666)

Substitute House Bill No. 6965
As Amended by House Amendment
Schedule "B"

Approved by the Legislative Commissioner
May 26, 2015

AN ACT CONCERNING THE PRESERVATION OF MUNICIPAL TAX BASES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective from passage and applicable to assessment*
2 *years commencing on and after October 1, 2015*) Notwithstanding any
3 provision of chapter 201, 203 or 204 of the general statutes or any
4 special act which provides an exemption from taxation of real or
5 personal property held by or on behalf of a medical foundation formed
6 under chapter 594b of the general statutes or a health system, as
7 defined in section 19a-508c of the general statutes, the following real
8 and personal property shall be taxable by a municipality in accordance
9 with the provisions of chapters 201, 203 and 204 of the general statutes:
10 (1) Real property that is acquired by a medical foundation formed
11 under chapter 594b of the general statutes or a health system, as
12 defined in section 19a-508c of the general statutes, on or after October
13 1, 2015, that, at the time of such acquisition, is subject to taxation under
14 the provisions of chapters 201, 203 and 204 of the general statutes, and
15 (2) any personal property incident to the rendering of health care

16 services at such real property. The provisions of this section shall not
17 apply to any real or personal property which is within such entities'
18 campus, as defined in subparagraph (A) of subdivision (2) of
19 subsection (a) of section 19a-508c of the general statutes.

20 Sec. 2. (NEW) (*Effective from passage and applicable to assessment years*
21 *commencing on and after October 1, 2015*) Notwithstanding any provision
22 of chapter 201, 203 or 204 of the general statutes or any special act,
23 except subdivision (8) of section 12-81 of the general statutes, which
24 provides an exemption from taxation of real or personal property held
25 by or on behalf of a private nonprofit institution of higher learning, as
26 defined in section 12-20a of the general statutes, any residential real
27 property intended for use or used as student housing, except a
28 dormitory, that is held by or on behalf of such entity, shall be taxable
29 by a municipality in accordance with the provisions of chapters 201,
30 203 and 204 of the general statutes. For purposes of this subsection: (1)
31 "Residential real property" means any house or building, or portion
32 thereof, which is rented, leased or hired out to be occupied as a home
33 or residence of one or more students, and (2) "dormitory" means a
34 building containing living or sleeping facilities consisting of twenty or
35 more beds intended for use or used as student housing and
36 maintained by a private nonprofit institution of higher learning, as
37 defined in section 12-20a of the general statutes.

38 Sec. 3. (*Effective from passage*) Notwithstanding any provision of the
39 general statutes or any special act, charter or ordinance, all acts and
40 proceedings of the officers and officials of a municipality pertaining to
41 the treatment as taxable or not taxable, as the case may be, by the
42 municipality of any real or personal property held by, or held in trust
43 for, a medical foundation formed under chapter 594b of the general
44 statutes or a health system, as defined in section 19a-508c of the
45 general statutes, on its October 1, 2014, grand list or earlier grand list,
46 are validated and the municipality shall continue to treat such real or
47 personal property as taxable or not taxable, as the case may be, in
48 subsequent tax years.

49 Sec. 4. Section 12-65b of the general statutes is repealed and the
50 following is substituted in lieu thereof (*Effective from passage*):

51 (a) Any municipality may, by affirmative vote of its legislative body,
52 enter into a written agreement with any party owning or proposing to
53 acquire an interest in real property in such municipality, or with any
54 party owning or proposing to acquire an interest in air space in such
55 municipality, or with any party who is the lessee of, or who proposes
56 to be the lessee of, air space in such municipality in such a manner that
57 the air space leased or proposed to be leased shall be assessed to the
58 lessee pursuant to section 12-64, fixing the assessment of the real
59 property or air space which is the subject of the agreement, and all
60 improvements thereon or therein and to be constructed thereon or
61 therein, subject to the provisions of subsection (b) of this section, (1) for
62 a period of not more than seven years, provided the cost of such
63 improvements to be constructed is not less than three million dollars,
64 (2) for a period of not more than two years, provided the cost of such
65 improvements to be constructed is not less than five hundred
66 thousand dollars, (3) to the extent of not more than fifty per cent of
67 such increased assessment, for a period of not more than three years,
68 provided the cost of such improvements to be constructed is not less
69 than ten thousand dollars, or (4) for a period of years specified in an
70 ordinance, for improvements to be constructed on land used or to be
71 used for any retail business in an area designated in such ordinance.
72 For purposes of this section, "improvements to be constructed"
73 includes the rehabilitation of existing structures for retail business use.

74 (b) The provisions of subsection (a) of this section shall only apply if
75 the improvements are for at least one of the following: (1) Office use;
76 (2) retail use; (3) permanent residential use; (4) transient residential
77 use; (5) manufacturing use; (6) warehouse, storage or distribution use;
78 (7) structured multilevel parking use necessary in connection with a
79 mass transit system; (8) information technology; (9) recreation
80 facilities; (10) transportation facilities; [or] (11) mixed-use
81 development, as defined in section 8-13m; or (12) use by or on behalf of
82 a medical foundation formed under chapter 594b or a health system, as

83 defined in section 19a-508c.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage and applicable to assessment years commencing on and after October 1, 2015</i>	New section
Sec. 2	<i>from passage and applicable to assessment years commencing on and after October 1, 2015</i>	New section
Sec. 3	<i>from passage</i>	New section
Sec. 4	<i>from passage</i>	12-65b

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 16 \$	FY 17 \$	FY 18
Policy & Mgmt., Off.	GF - Savings	None	None	Potential

Note: GF=General Fund

Municipal Impact:

Municipalities	Effect	FY 16 \$	FY 17 \$
Various Municipalities	Grand List Expansion	None	Potential Significant

Explanation

The bill makes the following types of property subject to property taxation: 1) real property purchased by a medical foundation or health system after October 1, 2015 that was taxable at the time of purchase; 2) personal property associated with such real property; and 3) any real, residential property owned by nonprofit institutions of higher education and used as student housing.

As a result of the bill, medical foundations and health systems will, beginning in FY 17, have to pay taxes on property purchased after October 1, 2015 that was taxable at the time of purchase. This precludes the revenue loss to municipalities (where such property is located) that could occur under current law when such organizations purchase any property.

The bill also results in a potentially significant revenue gain to municipalities with private universities, as those organizations will have to pay taxes on real residential property used as student housing beginning in FY 17. This revenue gain would be partially offset in any

impacted municipality that reduced its FY 17 mill rate below its current mill rate.

It is not known how much real, residential property is owned by private universities. If these organizations were not exempt from taxation in FY 14, it is estimated that they would have paid approximately \$175 million on all real property (including real, residential property).

By requiring certain colleges and hospitals to pay taxes on certain property, there is also a reduction in the cost to fully fund the state College & Hospital PILOT program, resulting in a savings to the Office of Policy and Management.

The bill: 1) precludes any increase in payments to towns with impacted hospital property, by requiring such property to remain taxable; and 2) eliminates PILOT payments to towns for real, residential university property.

Municipalities with real, residential university property may experience a reduction in their College & Hospital PILOT grant beginning in FY 18. Any revenue loss minimally offsets the revenue gain associated with the requirement that universities pay taxes on such property.

The bill also allows municipalities to fix the assessments of properties owned by medical foundations and health systems. This results in a revenue loss to municipalities that choose to do this, given a constant mill rate.

House "B" strikes the underlying bill and results in the above identified fiscal impact.

The Out Years

The ongoing fiscal impact identified above continues into the future subject to changes in municipal grand lists and mill rates.

OLR Bill Analysis**sHB 6965 (as amended by House "B")******AN ACT CONCERNING THE PRESERVATION OF MUNICIPAL TAX BASES.*****SUMMARY:**

This bill subjects certain nonprofit hospital and college property to property taxes. It applies to certain (1) real and personal property "medical foundations" and "health systems" acquire on or after October 1, 2015 and (2) residential real property private nonprofit colleges and universities use or intend to use for student housing ,regardless of when it was acquired.

The bill validates, for property tax purposes, the acts and proceedings of a municipality's officers and officials concerning the tax treatment of medical foundation and health system property on the 2014 grand list and prior lists. It requires the municipality to continue to tax or exempt such property, as applicable, in subsequent tax years. In doing so, it supersedes any contrary statute, special act, charter, or ordinance.

Lastly, the bill expands the types of property for which municipalities may fix real property tax assessments to include property improvements used by or on behalf of medical foundations or health systems.

*House Amendment "B" replaces the underlying bill, (1) changing the types of college and hospital property subject to tax, (2) adding the provision validating how municipalities treated hospital property for tax purposes, and (3) extending a local option property tax incentive to certain hospital property.

EFFECTIVE DATE: Upon passage, and applicable to assessment years beginning on and after October 1, 2015, except for the provisions (1) validating the tax treatment of certain medical foundation and health system property and (2) concerning fixed assessment agreements, which are effective upon passage.

MEDICAL FOUNDATION AND HEALTH SYSTEM PROPERTY

Property Subject to Taxation

The bill generally imposes the property tax on (1) real property that a “medical foundation” or “health system” acquires on or after October 1, 2015 that is subject to the tax at the time of the acquisition and (2) any personal property related to health care services delivered at the property. It excludes any real and personal property within such an entity’s campus, which by law is (1) the physical area immediately adjacent to a hospital’s main buildings and other areas and structures not strictly contiguous to such buildings but within 250 yards of them or (2) any other area the Centers for Medicare and Medicaid Services has determined on an individual basis to be a part of the campus (CGS § 19a-508c (2)(A)).

By law, a “medical foundation” is a nonprofit entity organized by a hospital, health system, or medical school to practice medicine and provide health care services through employees or agents who are licensed physicians or certain other providers. A “health system” is a (1) parent corporation of one or more hospitals and any entity affiliated with that corporation through ownership, governance, membership, or other means or (2) hospital and any affiliated entity.

The bill’s requirement supersedes any property tax statute or special act that exempts from property taxes real or personal property held by or on behalf of medical foundations or health systems. Current law generally exempts hospital and sanatorium property from property taxes (CGS § 12-81 (16)).

Fixed Assessments

Existing law allows a municipality, with its legislative body’s

approval, to fix the real property tax assessment increase resulting from improvements made to real property used for specified purposes. (Fixing the assessment freezes the property's taxable value for a set period, thus allowing its owner to improve the property without paying taxes on the improvement's value.) The bill expands the types of projects that qualify for the fixed assessments to include property improvements used by or on behalf of medical foundations or health systems.

By law, the period for fixing the assessment depends on the value of the improvements:

1. up to 100% of the increased assessment for up to seven years for projects over \$3 million,
2. up to 100% of the increased assessment for up to two years for projects over \$500,000, and
3. up to 50% of the increased assessment for up to three years for projects over \$10,000.

RESIDENTIAL REAL PROPERTY USED OR INTENDED FOR STUDENT HOUSING

The bill generally subjects to property tax any "residential real property" held by or on behalf of a "private nonprofit institution of higher learning" that is intended for or used as student housing. Under the bill, "residential real property" is any house or building, or portion thereof, rented, leased, or hired out to be occupied as a home or residence for one or more students. The bill excludes dormitories, which it defines as buildings maintained by a private nonprofit institution of higher learning, containing living or sleeping facilities, with at least 20 beds, intended for or used as student housing.

The bill's requirement supersedes any property tax statute or special act that provides a property tax exemption for real or personal property owned by or on behalf of such institutions, except for the statutory provision for college property owned by seven educational

institutions (CGS § 12-81 (8); see BACKGROUND).

By law, “private, nonprofit institutions of higher learning” are educational institutions or independent colleges or universities that (1) provide instruction beyond the high school level, (2) offer or accept transfer of college-level credit, and (3) are either licensed or accredited by the Office of Higher Education to offer degrees. Independent colleges or universities are nonprofit institutions established in Connecticut that (1) have degree-granting authority and their home campuses here, (2) are not part of the state public higher education system, and (3) do not have the primary function of preparing students for a religious vocation.

BACKGROUND

Property Tax Exemption for Certain Colleges and Universities

Although most colleges and universities are exempt from property taxes under the state's general tax exemption for nonprofit educational property (CGS § 12-81(7)), seven institutions are exempt under a separate statutory provision (CGS § 12-81(8)). They are: Connecticut College for Women; Hartford Seminary Foundation; Trinity College; Wesleyan University; Yale College; and Berkeley Divinity School and Sheffield Scientific School, which are part of Yale. With the exception of the Hartford Seminary Foundation, these institutions' special act charters contain provisions that parallel the statutory tax exemption. In addition, Yale's charter is confirmed in the state constitution (Article Eighth, § 3).

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute

Yea 13 Nay 7 (03/27/2015)